



LAI SUN GARMENT

LAI SUN GARMENT (INTERNATIONAL) LIMITED

Interim Report 2002-2003

## PLACE OF INCORPORATION

Hong Kong

## BOARD OF DIRECTORS

Lim Por Yen (*Chairman and Managing Director*)

Lam Kin Ngok, Peter (*Deputy Chairman*)

Lam Kin Ming (*Deputy Chairman*)

Chiu Wai

Shiu Kai Wah

Lee Po On

Lam Kin Hong, Matthew

U Po Chu

Lai Yuen Fong

Lam Wai Kei, Vicky#

Wan Yee Hwa, Edward\*

Leung Shu Yin, William\* (*appointed on 25th July, 2002*)

*Mui Chiu Ying resigned as a Director on 25th July, 2002*

# *Alternate Director to Madam Lai Yuen Fong*

\* *Independent Non-executive Directors*

## COMPANY SECRETARY

Yeung Kam Hoi

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*Stock code on Hong Kong Stock Exchange: 191*

## RESULTS

The Board of Directors of Lai Sun Garment (International) Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2003 were as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2003

	Notes	Six months ended	
		31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
TURNOVER	2	<b>688,866</b>	595,874
Cost of sales		<b>(479,400)</b>	(401,643)
Gross profit		<b>209,466</b>	194,231
Other revenue		<b>4,683</b>	3,743
Administrative expenses		<b>(55,732)</b>	(57,855)
Selling and distribution costs		<b>(101,797)</b>	(116,928)
Other operating expenses, net		<b>(12,240)</b>	(29,051)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	<b>44,380</b>	(5,860)
Finance costs	4	<b>(6,749)</b>	(2,261)
Share of profits and losses of associates		<b>(24,578)</b>	(196,138)
Write back of impairment in value of an associate		<b>21,004</b>	—
PROFIT/(LOSS) BEFORE TAX		<b>34,057</b>	(204,259)
Tax	5	<b>(15,244)</b>	(5,962)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		<b>18,813</b>	(210,221)
Minority interests		<b>(6,454)</b>	(4,238)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	6	<b>12,359</b>	(214,459)
EARNINGS/(LOSS) PER SHARE	6		
Basic		<b>0.9 cent</b>	(14.9 cents)
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2003

	Notes	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		33,858	35,581
Investment properties		221,100	221,100
Properties under development		177,152	177,228
Goodwill on consolidation of subsidiaries		98,877	107,867
Interests in associates		1,648,379	1,659,150
		<b>2,179,366</b>	2,200,926
<b>CURRENT ASSETS</b>			
Short term investments		16,868	18,150
Inventories	8	174,338	138,564
Deposits and other receivables		31,270	30,900
Trade receivables and bill receivables	9	189,279	361,309
Cash and cash equivalents		108,334	99,175
		<b>520,089</b>	648,098
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		89,170	98,866
Trade payables and bill payables	10	255,842	413,836
Tax payable		37,208	28,625
Interest-bearing bank and other borrowings		89,626	88,406
		<b>471,846</b>	629,733
<b>NET CURRENT ASSETS</b>		<b>48,243</b>	18,365
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,227,609</b>	2,219,291
<b>NON-CURRENT LIABILITIES</b>			
Note payable	11	(210,000)	(210,000)
Long term deposits received		(15,125)	(23,375)
Interest-bearing bank and other borrowings		—	(7)
		<b>(225,125)</b>	(233,382)
<b>MINORITY INTERESTS</b>		<b>(149,963)</b>	(144,156)
		<b>1,852,521</b>	1,841,753
<b>CAPITAL AND RESERVES</b>			
Issued capital		718,855	718,855
Reserves		1,133,666	1,122,898
		<b>1,852,521</b>	1,841,753

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2003

	Six months ended 31st January, 2003 (Unaudited)							
	Issued capital HK\$'000	Share	Fixed asset	Capital reserve HK\$'000	General reserve HK\$'000	Exchange	Accumulated losses HK\$'000	Total HK\$'000
		premium	revaluation			fluctuation		
		account	reserve			reserve		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31st July, 2002 and 1st August, 2002 (Audited)	718,855	1,119,738	19,785	4,420,547	57	28,908	(4,466,137)	1,841,753
Exchange realignments:								
Subsidiaries	—	—	—	—	—	(47)	—	(47)
Associates	—	—	—	—	—	(1,544)	—	(1,544)
Net profit for the period	—	—	—	—	—	—	12,359	12,359
At 31st January, 2003 (Unaudited)	718,855	1,119,738*	19,785*	4,420,547*	57*	27,317*	(4,453,778)*	1,852,521

\* The aggregate of these reserve account balances represented the consolidated reserves of HK\$1,133,666,000 (31st July, 2002: HK\$1,122,898,000) in the condensed consolidated balance sheet.

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	Six months ended 31st January, 2002 (Unaudited)								
	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Revaluation	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
				reserve for					
				properties					
under development	held for investment potential HK\$'000								
At 31st July, 2001 and 1st August, 2001 (Audited)	718,855	1,119,738	51,912	148,729	4,455,469	57	29,755	(3,266,029)	3,258,486
Release upon disposal of subsidiaries	—	—	—	—	(1,610)	—	—	—	(1,610)
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	(39)	—	(39)
Associates	—	—	—	—	—	—	566	—	566
Net loss for the period	—	—	—	—	—	—	—	(214,459)	(214,459)
At 31st January, 2002 (Unaudited)	718,855	1,119,738	51,912	148,729	4,453,859	57	30,282	(3,480,488)	3,042,944

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2003

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	19,532	(40,747)
NET CASH USED IN INVESTING ACTIVITIES	(8,930)	(90)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	(3,021)	3,353
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,581	(37,484)
Cash and cash equivalents at beginning of period	84,992	74,935
Effect of foreign exchange rate changes, net	31	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	92,604	37,451
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	79,212	52,897
Non-pledged time deposits with original maturity of less than three months when acquired	29,122	1,500
Bank overdrafts	(2,952)	(3,822)
Trust receipt loans with maturity of less than three months at the acquisition date	(12,778)	(13,124)
	92,604	37,451

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 (Revised) “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st July, 2002, except that the following new or revised SSAPs effective for accounting periods commencing on or after 1st January, 2002 are adopted for the first time in the preparation of the current period’s unaudited condensed consolidated interim financial statements.

The following recently issued and revised SSAPs are effective for the first time for the current period’s financial statements.

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 25 (Revised) : “Interim financial reporting”
- SSAP 34 : “Employee benefits”

The adoption of these SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement but has had no significant effect on the results for the current and prior accounting periods.

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Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under cash flows from returns on investments and servicing of finance, are classified as operating activities, unless they can be separately identified with investing or financing activities. The comparative figures have been reclassified to conform with the current period’s presentation.

Apart from aforementioned, no further adjustments relating to prior periods have been required as a result of the adoption of the new and revised SSAPs.

## 2. SEGMENTAL INFORMATION

An analysis of revenue and profit/(loss) from operating activities for the Group's business segments and geographical segments for the six months ended 31st January, 2003 is as follows:

	Six months ended 31/1/2003 (Unaudited)				Six months ended 31/1/2002 (Unaudited)			
	External	Other	Segment	Segment	External	Other	Segment	Segment
	sales	revenue	revenue	results	sales	revenue	revenue	results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:								
Garment operation	675,360	3,560	678,920	45,948	584,838	—	584,838	16,375
Property investment	6,990	104	7,094	4,058	5,753	—	5,753	5,234
Other operations	6,516	—	6,516	(3,745)	5,283	—	5,283	(2,161)
	<b>688,866</b>	<b>3,664</b>	<b>692,530</b>	<b>46,261</b>	<b>595,874</b>	<b>—</b>	<b>595,874</b>	<b>19,448</b>
Interest income and unallocated other revenue				1,019				3,743
Unallocated expenses				(2,900)				(29,051)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES				<b>44,380</b>				<b>(5,860)</b>

	Six months ended 31/1/2003 (Unaudited)				Six months ended 31/1/2002 (Unaudited)			
	External	Other	Segment	Segment	External	Other	Segment	Segment
	sales	revenue	revenue	results	sales	revenue	revenue	results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments:								
Hong Kong	159,993	557	160,550	2,023	144,117	—	144,117	(13,712)
Other parts of People's Republic of China ("PRC")	128,686	3,107	131,793	1,163	160,837	—	160,837	23,303
United States of America	400,187	—	400,187	43,075	290,423	—	290,423	9,810
Other geographical areas	—	—	—	—	497	—	497	47
	<b>688,866</b>	<b>3,664</b>	<b>692,530</b>	<b>46,261</b>	<b>595,874</b>	<b>—</b>	<b>595,874</b>	<b>19,448</b>
Interest income and unallocated other revenue				1,019				3,743
Unallocated expenses				(2,900)				(29,051)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES				<b>44,380</b>				<b>(5,860)</b>



### 3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Depreciation:		
Owned fixed assets	3,726	9,686
Leased fixed assets	—	46
Amortisation of goodwill on acquisition of subsidiaries	8,990	8,990
Unrealised losses on short term investment	1,282	400
Loss on disposal of properties held for sale	—	100
Severance payments*	—	20,646
and after crediting:		
Gain on disposal of subsidiaries	—	(1,610)

\* Item is included in other operating expenses, net.

### 4. FINANCE COSTS

The balance represented interest on bank loans, overdrafts and other borrowings and the note payable (note 11) wholly repayable within five years.

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### 5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Provision for tax for the period:		
Hong Kong	8,900	—
Outside Hong Kong	—	1,585
	8,900	1,585
Associates:		
Hong Kong	6,239	4,577
Outside Hong Kong	105	(200)
	6,344	4,377
Tax charge for the period	15,244	5,962

## 6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$12,359,000 (2002: net loss of HK\$214,459,000) and the number of 1,437,709,710 (2002: 1,437,709,710) ordinary shares in issue during the period.

Diluted loss per share amounts for the current and prior periods have not been disclosed, as the potential ordinary shares of the Group outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

## 7. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transactions with related parties:

	Notes	Six months ended	
		31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Interest expense to a shareholder	(i)	5,364	130
Rental expenses to associates	(ii)	4,397	5,373

(i) Details of the loan note payable to a shareholder are included in note 11.

(ii) Rentals were charged by the associates pursuant to the respective lease agreements.

## 8. INVENTORIES

	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
Raw materials	9,887	7,398
Work in progress	688	563
Finished goods	162,821	130,603
Goods in transit	942	—
	<b>174,338</b>	<b>138,564</b>

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK\$53,250,000 (31st July, 2002: HK\$30,626,000).

## 9. TRADE RECEIVABLES AND BILL RECEIVABLES

Credit term extended by the Group to trade debtors is normally within 30 days to 180 days.

Crocodile Garments Limited ("CGL") and its subsidiaries (collectively the "CGL Group"), a listed subgroup of the Company, maintain their own set of credit policies. Other than cash sales transactions made at retail outlets of the CGL Group, trading with the wholesale customers are largely on credit. For new wholesale customers, advance payments are normally required. Invoices are normally payable within 30 days from the date of issuance by customers, except for certain well-established customers to whom the payment terms are extended up to 90 days. Each customer has been assigned a designated credit limit.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

The aged analysis of trade receivables and bill receivables as at 31st January, 2003 is as follows:

	<b>31/1/2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31/7/2002 (Audited) HK\$'000
Current to 90 days	<b>120,276</b>	199,006
91 days to 180 days	<b>25,052</b>	36,674
181 days to 365 days	<b>15,662</b>	80,582
Over 365 days	<b>28,289</b>	45,047
	<b>189,279</b>	361,309

#### 10. TRADE PAYABLES AND BILL PAYABLES

The aged analysis of trade payables and bill payables as at 31st January, 2003 is as follows:

	<b>31/1/2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31/7/2002 (Audited) HK\$'000
Current to 90 days	<b>174,958</b>	237,239
91 days to 180 days	<b>27,072</b>	39,601
181 days to 365 days	<b>15,856</b>	80,902
Over 365 days	<b>37,956</b>	56,094
	<b>255,842</b>	413,836

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#### 11. NOTE PAYABLE

The amount represented the outstanding balance of a loan note payable to a shareholder. The loan note is unsecured, bears interest at the best lending rate quoted by a designated bank and with maturity date on 30th April, 2004.

#### 12. CONTINGENT LIABILITIES

There is no material change in contingent liabilities since the last annual report date.

#### 13. COMPARATIVE AMOUNTS

Certain reclassification among geographical segments has been made to the 2002 comparative amounts shown in the analysis of segmental information by geographical segments in note 2 to the condensed consolidated financial statements. The Company considers that the risks and returns from the garment operations of the Group are influenced more by the location of its markets and customers than by the geographical location of their operations. As such, the reclassification accordingly made would produce a more appropriate presentation of the Group's financial position.

#### 14. POST BALANCE SHEET EVENT

On 7th March, 2003, Lai Fung Holdings Limited ("Lai Fung"), a 46.04%-owned associate of the Company, entered into an underwriting agreement with DBS Asia Capital Limited (the "Underwriter") relating to a rights issue of not less than 767,706,730 rights shares ("Rights Shares") of HK\$0.10 each at HK\$0.10 per share in the proportion of one rights share for every five existing shares held on 31st March, 2003 (the "Rights Issue").

The Company has given an irrevocable undertaking in favour of Lai Fung and the Underwriter to take up 353,425,071 Rights Shares, being its entitlement under the Rights Issue in full. The Company has indicated that it has no present intention to apply for any excess Rights Shares.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the financial year ending 31st July, 2003. No interim dividend was declared in respect of the previous corresponding period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group reported an unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$12.4 million for the half-year ended 31st January, 2003, a substantial improvement on the net loss of HK\$214.5 million recorded for the previous corresponding period. Turnover for the period increased by approximately 15.6% to HK\$688.9 million mainly due to improved figures from the garment operation of the Company.

Significant improvement to the operating results of the garment operation of the Company had been achieved and a contribution to profit had been recorded. This compares favourably with the results reported for the same period last year. Lai Fung Holdings Limited, the 46%-owned associate, also made positive contribution to the consolidated results of the Company. Crocodile Garments Limited had reported a profit for the period under review but its contribution to the results of the Company had been partly offset by an amortisation of goodwill. Due to improved results reported by Lai Sun Development Company Limited ("LSD"), the Company's share of LSD's losses had been substantially reduced for the period.

LSD reported an unaudited consolidated net loss attributable to shareholders of HK\$105.9 million for the half-year, which was lower than the net loss recorded for the previous corresponding period by around 63%. LSD's operations continued to be affected by a decline in rental income as well as provision taken in respect of its development landbank, but such impact had been cushioned by the improved performance of its hotel operations and lower interest rates.

LSD's rental income for the period fell by 5% due to the disposal of Crocodile Houses 1 and 2 in July 2002. Average occupancy rate of its investment property portfolio, however, remained at 95%. Disposal of two adjoining sites situated at 51-53 Station Lane and 84-86 Wuhu Street was completed in September 2002. Construction works for Furama Court and Rolling Hills Phase II, in both of which the LSD group has a 50% interest, were progressing well and pre-sale of both projects are targeted for early 2004.

Subsequent to the end of the half-year under review, the LSD group sold two-thirds of its 30% interest in the 1 Connaught Road Central (the former Furama Hotel) redevelopment project for a total consideration of approximately HK\$463 million. This transaction, which is subject to approval by shareholders of LSD, will help reduce the indebtedness of the LSD group.

LSD continued to make reasonable progress in its overall debt restructuring programme. It agreed a formal standstill with its Exchangeable Bondholders and Convertible Bondholders for the period between 1st January and 31st March, 2003. During this period, LSD also announced its proposal to privatise eSun Holdings Limited (“eSun”), its 49.99%-owned associate, by way of a scheme of arrangement at an offer price of HK\$0.28 per share. The proposed privatisation of eSun is subject to the approval of independent shareholders of eSun at a meeting convened at the direction of the Supreme Court of Bermuda, to be held on 30th April, 2003.

LSD entered into a period of informal standstill from 1st April, 2003. The directors of LSD believe that the Bondholders, eSun and the secured creditors will not take action, pending the outcome of a comprehensive debt restructuring plan.

eSun reported an audited consolidated net loss attributable to shareholders of HK\$68.8 million for the year ended 31st December, 2002. The company managed to reduce its loss from operating activities to HK\$27.6 million, which was a significant reduction from the loss of HK\$129.3 million reported for the previous year.

The satellite television operation of eSun was consolidating its position during the start-up stage and it had reported an operating loss of HK\$60.7 million for the financial year. The operating results of Media Asia Holdings Ltd. (“MAH”), the 35%-owned associate of eSun, had been adversely affected by the decline in local cinema box-office takings. MAH still succeeded in producing a number of films of respectable standard, including the recent “Infernal Affairs” which achieved record box-office takings of over HK\$50 million in Hong Kong alone.

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The entertainment arm of the eSun group had been active during the year and a total of 13 pop concerts and entertainment shows were produced. Sale of distribution rights for DVD recordings of its entertainment shows was being developed.

Lai Fung Holdings Limited (“Lai Fung”), in which the Company holds a 46.04% interest, reported a net profit attributable to shareholders of HK\$15.08 million for the half-year under review. This was a significant improvement on the net loss of HK\$10.41 million recorded for the same period the year before. Higher occupancy rates recorded for the offices, shopping arcades and service apartments of Hong Kong Plaza in Shanghai, coupled with the reduction in finance and other costs, contributed to the positive results of Lai Fung.

Rental contribution from Hong Kong Plaza, the principal investment property of Lai Fung in Shanghai, continued to improve during the period under review. Construction works for Phase I of Hai Xin Garden in Shanghai, Phase III of Eastern Place and Wuyuehua Shangye Guangchang in Guangzhou were on schedule.

Crocodile Garments Limited (“CGL”) reported an unaudited consolidated net profit attributable to shareholders of HK\$14.3 million on a turnover of HK\$280.9 million for the period. Despite a lower turnover and a fall in gross profit margin, CGL succeeded in reducing selling and distribution costs and administrative expenses.

Measures adopted by CGL to rationalise the retail operation in Hong Kong had contributed to the operating profit recorded for this operation. In the Mainland, a mild fall in sales and profit had been reported due to a slowdown in demand for new merchandise to stock new retail outlets of franchisees and increase in competition by other garment retailers.

## Prospects

Prior to the recent outbreak of atypical pneumonia in Hong Kong, signs were beginning to surface that the local economy might have reached the trough of the downward cycle and was gradually gaining upward momentum. The adverse impact of the outbreak of the disease across different sectors of the economy have yet to be assessed but it now appears that hopes of a quick recovery could be optimistic.

The environment for economic growth in the Mainland will remain favourable in the short- to medium-term. This will be beneficial to Group companies with substantial operations or investments in the Mainland, such as CGL and Lai Fung. The Company will concentrate on the management of its investments in the subsidiary company, CGL, and the two principal associated companies, namely LSD and Lai Fung, and its garment operation.

The investment property portfolio of LSD will likely be affected by the expected slow downward adjustment in office rentals in Hong Kong. The drastic fall in global travel will also impact on its hotel management and operations. One of its main priorities in this financial year will be the implementation of a comprehensive debt restructuring plan. The directors of LSD believe that a restructuring proposal satisfactory to all creditors and shareholders will be formulated and agreed within a reasonable period of time.

eSun will continue with its efforts to improve the marketability of its television programmes in Greater China and South East Asia, while it waits for the outcome of its application for a satellite television downlink licence from the relevant authorities in the Mainland. It also plans to concentrate on the production of pop concerts and entertainment shows. Sale of distribution rights for DVD recordings of these events will be further developed to generate additional income.

eSun will also actively support the operations of its film-producing associate, MAH, which produced the highly popular local film, "Infernal Affairs".

Lai Fung will focus on property investment and development projects in Shanghai and other major cities in Guangdong Province, in particular, Guangzhou. With the projected growth in gross domestic product of around 7% this year, the increasing affluence of a wider sector of the population in major cities in the Mainland should gradually build up a bigger potential customer base for Lai Fung.

The directors of CGL expect the results of the company for the full year to be adversely affected by the recent outbreak of atypical pneumonia. To minimise the impact, CGL is actively planning to rationalise the deployment of human resources, to further increase the proportion of sales in the Mainland, to tighten cost control and to redeploy supporting staff to the Mainland on a more extensive scale.

## **Liquidity and Financial Resources**

As at 31st January, 2003, total bank and other borrowings, inclusive of the note payable to a shareholder, and consolidated net assets of the Group amounted to HK\$300 million and HK\$1,853 million, respectively. The debt to equity ratio, as expressed as a percentage of total bank and other borrowings to total net assets, as at that date was approximately 16.2%.

Substantially all of the total bank and other borrowings of HK\$90 million as at 31st January, 2003 were repayable or renewable within one year. The note payable to a shareholder had maturity date on 30th April, 2004.

The Group's bank borrowings were mainly in HK dollar and US dollar thereby reducing its exchange risk exposure. The majority of the bank and other borrowings were maintained as floating rate debts. Attention will be paid to the interest rate movements, hedging instruments will be employed when necessary to hedge against unanticipated interest rate volatilities.

As at 31st January, 2003, certain investment properties with carrying value of approximately HK\$218 million and certain land and building with carrying value of approximately HK\$8 million were pledged to banks to secure banking facilities granted to the Group. In addition, 115,000,000 ordinary shares of Lai Fung and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure banking facilities granted to the Group.

The cash and bank balance and short-term listed investments held by the Group as at 31st January, 2003 amounted to HK\$108 million and HK\$17 million, respectively, which was considered adequate to cover the working capital requirement of the Group.

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Most of the Group's sale and purchases were made in US dollar, HK dollar, Renminbi and Euro dollars. Foreign purchases in Euro dollars were mostly covered with forward exchange contracts in order to minimize the exchange risk.

## **Employees and Remuneration Policies**

The total number of employees of the Group, including part time sales staff, was approximately 1,200 (31st July, 2002: 1,300) as at the balance sheet date. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

## **Contingent Liabilities**

There is no material change in contingent liabilities since the last annual report date.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st January, 2003, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") were as follows:

### (1) The Company

	Number of Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	484,991,750	Nil	Nil	Nil	484,991,750
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Nil	110,794,951
Lam Kin Ming	4,090,358	Nil	Nil	Nil	4,090,358
Chiu Wai	199,600	Nil	Nil	Nil	199,600
U Po Chu	3,669,000	Nil	Nil	Nil	3,669,000
Lai Yuen Fong	361,432	Nil	Nil	Nil	361,432

### (2) Associated Corporations

#### (a) *Lai Sun Development Company Limited ("LSD")*

	Number of LSD Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	1,582,869,192 <i>(Note)</i>	Nil	1,780,728,742
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
Chiu Wai	195,500	Nil	Nil	Nil	195,500
U Po Chu	633,400	Nil	Nil	Nil	633,400
Lam Wai Kei, Vicky	100,000	Nil	Nil	Nil	100,000

*Note:* The Company and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in LSD. Mr. Lim Por Yen was deemed to be interested in such shares in LSD by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.



(b) **Lai Fung Holdings Limited (“Lai Fung”)**

	Number of Lai Fung Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	1,767,125,360 (Note)	Nil	1,767,125,360

Note: The Company and its wholly-owned subsidiary beneficially owned 1,767,125,360 shares in Lai Fung. Mr. Lim Por Yen was deemed to be interested in such shares in Lai Fung by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.

(c) **Crocodile Garments Limited (“CGL”)**

	Number of CGL Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	338,982,809 (Note)	Nil	338,982,809
Lee Po On	6,194,000	Nil	Nil	Nil	6,194,000

Note: The Company and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Mr. Lim Por Yen was deemed to be interested in such shares in CGL by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.

In addition to the above, a Director of the Company held a non-beneficial interest in the share capital of a subsidiary of the Company as a nominee shareholder, for the purpose of complying with the statutory requirement for a minimum number of shareholders for such subsidiary.

Save as disclosed above, as at 31st January, 2003, none of the Directors or chief executive of the Company or their respective associates had any interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part 1 of the Schedule to that Ordinance) or the Code or which were required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

## SUBSTANTIAL SHAREHOLDERS

As at 31st January, 2003, the following party was interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept by the Company under Section 16 (1) of the SDI Ordinance:

	<b>Number of Shares Held</b>
Mr. Lim Por Yen	489,022,182 <i>(Note)</i>

*Note:* Mr. Lim Por Yen's interest in the said 489,022,182 shares in the Company included 361,432 shares and 3,669,000 shares in the Company respectively held by Madam Lai Yuen Fong and Madam U Po Chu, the spouses of Mr. Lim Por Yen, who were also deemed under the SDI Ordinance to have interest in Mr. Lim Por Yen's interest in the share capital of the Company.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 31st January, 2003.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## CODE OF BEST PRACTICE

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None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board  
**Lim Por Yen**  
*Chairman and Managing Director*

Hong Kong, 17th April, 2003

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